RBI circular on gold lending

Impact assessment

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Foreword

The Indian banking sector is undergoing a regulatory transition from rule-based to principles-based frameworks, fostering innovation and risk-calibrated growth. Governance and compliance have emerged as central themes, with the Reserve Bank of India (RBI) addressing concerns such as data security, customer privacy, and unfair lending practices. Persistent concerns regarding lending practices in smaller NBFCs, MFIs, and fintechs highlight issues like inadequate risk assessment, high loan-to-value (LTV) ratios, non-compliance in cash disbursals, and poor KYC adherence in case of certain unsecured loan products and even gold loans. The concern from the regulator emanates from the fact that select NBFCs are pursuing a 'growth at all costs' approach without focus on building sustainable business practices and risk management frameworks that are aligned to the complexity of the portfolio. The message from the regulator is clear that it wants to advocate disciplined growth in these segments.

RBI, in June 2025, released its final circular for gold loans (largely regarding consumption gold loans) regulations to address conduct related gaps. The revised regulations apply to all commercial banks, NBFCs, cooperative banks, and housing finance companies. This new framework focuses on borrower-friendly reforms and stricter conduct rules for lenders. Maximum permissible LTV ratio has increased from 75% to 85% based on the ticket size of the loans. Under the final guidelines, new gold loan sanctions will follow a tiered structure for LTV. Loans up to INR 2.5 lakh will have a more accommodating LTV of up to 85%, enabling higher funding against the collateral provided. For loans between INR 2.5 lakh and INR 5 lakh, the permissible LTV is up to 80%, while loans above INR 5 lakh are capped at an LTV of up to 75%. These incremental proportions seek to aid smaller borrowers first, before transitioning to larger ones where stricter policies are maintained. Further, bullet repayment consumption loans, where the principal and interest are settled at the end of the term, must now be repaid within a 12-month period. The provisions of the final circular shall be complied by 1 April 2026.

The regulator has repeatedly raised concerns around issues such as insufficient due diligence, flawed valuation practices, and opaque auction processes. The circular mandates the presence of the borrower during the gold valuation process. Additionally, any surplus generated from a gold auction must be returned to the borrower within seven working days of the auction's successful conclusion. This shall ensure transparency and timely return of any excess amount after the lender recovers its dues. Further, lenders must release pledged gold or silver within seven working days of loan closure. Failure to do so will require them to compensate the borrower at a rate of INR5,000 for each day of delay. The tightening of gold loan regulations is intended to bring greater consistency and alignment to the regulatory framework, especially among smaller players.

For NBFC lenders, the revised norms may initially lead to higher compliance and operational costs. However, the norms are also expected to enhance asset quality, reduce default risks, and strengthen overall market credibility. Borrowers, in turn, will benefit from increased transparency and improved safeguards, though some (Average Ticket Size (ATS) > INR5 lakh) may be impacted by the 75%-85% LTV cap. Overall, these regulatory reforms aim to instil greater discipline and promote long-term stability in the gold loan segment.

Kuldeep Tikkha

Partner & National Leader, Transaction Diligence, India

Manik Mahajan

Partner, Transaction Diligence

**The RBI circular applies primarily to consumption (personal) gold loans*

A closer look at the key provisions of RBI circular
"From dazzle to discipline"

I. Tighter LTV norms could hamper growth/ yield

The circular proposes that the 75%-85% LTV ceiling will apply uniformly to all gold loans sanctioned by NBFCs, regardless of the loan's intended purpose. ***This LTV ratio must be maintained continuously throughout the loan's tenure***, thereby eliminating a key regulatory arbitrage that had previously given NBFCs an advantage over banks. In the case of bullet repayment loans, the ***LTV ratio will now be calculated based on the total repayment amount due at maturity, rather than the loan amount disbursed at origination***. This change is aimed at addressing gaps in the current system, particularly the absence of a robust mechanism for periodic LTV monitoring. There have been instances where regulatory LTV limits were breached, and in some cases, system-generated alerts—where available—were not acted upon effectively to rectify these breaches. However, to improve credit facilities in rural and semi-urban regions, LTV for small tickets loans (up to INR2.5 lakh) has been raised from 75% to 85% allowing borrowers to draw more funds against the same collateral.

The LTV cap is expected to constrain loan growth for gold financiers, especially in the higher ticket segment, since most players currently operate on a bullet repayment model. ***Under a constant gold price scenario and assuming an interest cost of 17%–18% (average tenure of 12 months), lenders disbursing loans > INR5 lakh, would need to sanction loans at an initial LTV of approximately 63%–64%*** to remain compliant throughout the loan tenor. This significantly limits headroom for growth, as any disbursement beyond this threshold would reduce the buffer needed to absorb potential gold price correction.

The borrowers could likely shift to shorter-tenure loans or may need to pledge additional gold to meet the stricter LTV requirements especially in the higher ticket size.

A strategic shift toward an EMI-based repayment model in pursuit of growth could help maintain compliance, but may lead to yield compression, given that EMI-based loans typically generate lower returns compared to bullet repayment structures.

II. Revised gold loan rollover norms more balanced than perceived

The RBI has permitted gold loan renewals and top-up loans, provided there is sufficient LTV headroom, and the loans remain standard. In the case of ***bullet repayment loans, such facilities can be extended only after accrued interest has been fully repaid***. These renewals or top-ups must be initiated through a formal request from the borrower and supported by a fresh credit appraisal. Additionally, lenders are required to ensure that these transactions are distinctly identifiable within their Core Banking System (CBS) or Loan Processing System (LPS). Previously, there was ambiguity surrounding rollover norms, leading to varied lending practices across institutions. The RBI had raised concerns regarding potential loan rollovers at maturity and the risk of evergreening. Some apprehension existed that rollovers might only be permitted after full repayment of both principal and interest. However, the proposed guidelines reflect a more balanced stance. While interest repayment is a precondition for renewal, any breach of the LTV ratio at maturity disqualifies the loan from being rolled over—thereby increasing NPA risk, particularly during a downturn in gold prices.

III. End use monitoring and gold valuation

The proposed guidelines mandate that all gold loans be anchored to the borrower's repayment capacity, supported by thorough credit appraisal and due diligence. Lenders will also be required to implement systems for monitoring the end use of funds. Currently, most gold lenders primarily base their lending decisions on the collateral value of gold, with limited focus on borrower-level assessments. While the new norms may increase turnaround times (TAT) and raise operational costs, the impact is expected to be largely manageable for established players. With regard to gold valuation, the guidelines mandate that the purity of gold collateral be benchmarked to 22 carats. In cases where the collateral is of lower purity, lenders are required to convert it to its 22-carat equivalent for valuation purposes. While this practice is already in place, the proposed guidelines emphasize stricter compliance and more consistent adherence to this methodology. Furthermore, the circular mandates that gold used for loan ***collateral must be valued at the lower of either the 30-day average closing price or the previous day's closing price, both for 22-carat gold.*** By leveraging this stipulation, lending institutions are eroding the perceived worth of the collateralized gold which directly diminishes the maximum loan amount permitted to borrowers even when gold's market price is high.

Summarizing the guidelines and their potential implications

Provision	Key focus	Potential implications for players
Loan to Value (LTV)	▪ Maintain 75%–85% LTV throughout the loan tenure ▪ For bullet repayment loans, LTV will be calculated on total amount (Principal + Interest accrued) repayable at maturity. ▪ NBFCs shall determine and incorporate in their lending policies the maximum permissible LTV ratios for different categories of loans secured by eligible gold, based on their internal risk assessment. Nevertheless, for consumption-related gold loans, the LTV ratio must not exceed 75%-85% of the value of the gold.	▪ Limits the pace of loan growth, particularly in light of prevalent reliance on the bullet repayment model. ▪ Borrowers could likely shift to shorter-tenure loans or may need to pledge additional gold to meet the stricter LTV requirements, especially in the higher ticket size. ▪ A strategic shift toward an EMI-based repayment model in pursuit of growth could help maintain compliance, but may lead to yield compression ▪ Customers with >INR2.5 lakh ticket size (could potentially be SME/business loan customers) are now likely to move towards banks.
Top-up loans and Renewals	▪ Loan renewals and top-ups can be sanctioned only for standard loans. ▪ For bullet repayment loans, the same can be sanctioned only after repayment of the accrued interest. ▪ Renewals not permitted, if loan breaches the LTV as on maturity date.	▪ While the regulations permit renewals after repayment of interest, in case of a LTV breach at maturity, no renewal is permitted. This significantly increases NPA risks in a gold downcycle.
Valuation of gold	▪ Gold or silver accepted as collateral shall be valued based on the reference price corresponding to its actual purity (caratage). If price information for the specific purity is not directly available, the lender shall use the published price available for the nearest available purity and proportionately adjust the weight of the collateral based on its actual purity to arrive at valuation. ▪ The guidelines mandate standardizing gold valuation based on 22-carat purity. For gold of lower purity, lenders must convert its value to the equivalent weight in 22-carat terms	▪ May increase turnaround times (TAT) and raise operational costs. ▪ Promote compliance and more consistent adherence to this methodology. ▪ Standardize the valuation process, enhance transparency, and safeguard borrower interests. ▪ Enable lenders to manage risk more effectively through a consistent and transparent valuation framework.

Provision	Key focus	Potential implications for players
Cap on weight of pledged gold	▪ In case of loan against ornaments and coins, total weight of pledged ornaments/gold coins shall not exceed 1kg/50g and 10kg/500g per borrower for gold and silver respectively.	▪ Could affect borrowers with substantial gold holdings by potentially limiting their borrowing capacity, while also promoting more transparent and standardized valuation practices.
Ownership of collaterals	▪ Lenders shall not extend loans where ownership of the collateral is doubtful. ▪ A suitable document or declaration shall be obtained from the borrower in all cases to the effect that the borrower is the rightful owner of the eligible collateral. Multiple or frequent sanction of loans against eligible collateral to the same borrower, aggregating to a value in excess of a threshold to be decided by the lender, must be examined closely as part of the transaction monitoring under the anti-money laundering (AML) framework.	▪ Helps avoid disputes over ownership and promotes trusts. ▪ Reduces risk of fraudulent loans.

Contacts

Kuldeep Tikkha
Partner & National Leader,
Transaction Diligence

kuldeep.tikkha@in.ey.com

Manik Mahajan
Partner, Transaction Diligence

manik.mahajan@in.ey.com

- **Rushabh K. Shah**
  Director - Transaction Diligence
  Rushabh1.Shah@in.ey.com

- **Tushar Surana**
  Vice President- Transaction Diligence
  Tushar.Surana@in.ey.com

- **Devika Dayani**
  Associate Vice President- Transaction Diligence
  Devika.Dayani@in.ey.com

- **Parag Jani**
  Associate Director- Knowledge and Analytics, Financial Service
  Parag.Jani@in.ey.com

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